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C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 000263

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SUBJECT: SOUTH CAUCASUS SUMMIT ENERGY RESULTS DISAPPOINT
GEORGIA

REF: TBILISI 240

Classified By: Ambassador John F. Tefft, reason 1.4(b) and (d)

¶1. (C) Summary: IN a February 8 meeting with DCM Mark X. Perry, Valeri Chechelashvili, Deputy Minister of Foreign Affairs of Georgia expressed strong disappointment that the February 7 meeting of Turkish Prime Minister Recep Erdogan, Azerbaijani President Ilham Aliyev and Georgian President Saakashvili, along with meetings of Energy and Trade Ministers of the three countries, did not produce better results in terms of securing gas supplies for Georgia. Turkey insisted on supplying its promised gas before July 1, 2007, and pushed for ambiguous language about securing the rights of the Turkish oil company BOTAS. The three countries finalized an agreement for constructing the Kars-Baku railway, despite some Georgian reservations about its impact on its Black Sea ports and relations with Armenia. The leaders' meeting resulted in "The Tbilisi Declaration on a Common Vision for Regional Cooperation" that is long on generalities and short on specifics. End Summary.

¶2. (C) During the meeting, Saakashvili, Erdogan and Aliyev signed an agreement confirming construction of the Kars-Akhalkalaki-Baku railway (reftel). Chechelashvili said the project was signed by Georgia despite the GOG's concerns about the impacts on Georgia's Black Sea ports. The project is important to Georgia's number one and two trade partners, Turkey and Azerbaijan, and so it will go forward, he said. Georgia is well aware of Armenia's opposition to the project, and before the deal was signed, Minister of Foreign Affairs Bezhuashvili talked to the Armenian Foreign Minister to allay his fears. President Saakashvili publicly mentioned Georgia's interest in good relations with Armenia in the presence of both Erdogan and Aliyev, Chechelashvili said. Saakashvili was quoted in reports of the event as saying Georgia does not want any country of the region to be isolated from regional cooperation. Chechelashvili said that Georgia wants to do what it can to help Armenia have transport capacity. For the past year, Georgia has allowed Armenian trucks to use its roads free of transit fees, although this gesture lost importance when the Russians closed the only legal border crossing into Russia in mid-2006. Armenia has reciprocated for Georgian truckers but free transit through Armenia is not especially useful to Georgia, Chechelashvili said. The GOG hopes the project will have positive impact on the impoverished region of Samske-Javakheti, where many Armenian people live. The exchange facility from European to CIS gauge railroad track is located in the region and will create jobs. Improved electricity connections to Turkey are expected to help the area as well. Chechelashvili mentioned the \$200 million, 25 year, 1% interest loan with no state guarantee required that Azerbaijan is providing to Georgia to fund the railroad

project.

¶3. (C) Chechelashvili was deeply disappointed in the Turkish approach to the energy problems in the region. He said that Turkey had essentially repudiated its promise to supply gas to Georgia in 2007 by attaching conditions to it that make it useless to Georgia. He said that in preparatory meetings, Turkish Energy Ministry staff presented proposed language for the declaration that the Georgians found acceptable. However, during the meeting of the Energy Ministers in Tbilisi, Turkish Minister Guler pulled that version and, with the help of a stern and uncooperative representative of BOTAS attending the meeting, wrote a new one. Guler's new version called for "securing the interests of BOTAS" and would postpone commencement of Turkey's obligation to take Shah Deniz gas until July.

¶4. (U) This new language was not agreed to and the Declaration states:

"Together, we agree to establish long-term and predictable mechanisms that ensure the energy security of all three nations through the reliable, timely and commercially based provision of gas and electricity based on the infrastructure projects referenced herein. (Note: This refers to the Baku-Ceyhan, Baku-Supsa and Shah Deniz pipelines.) Taking into consideration the energy needs of our countries we appreciate the start of exploitation of Shahdeniz (sic) gas condensed field located in the Azerbgijan sector of the Caspian Sea. We agree to continue to cooperate in order to meet mutual needs for reliable and sustainable gas supplies."

¶5. (C) Chechelashvili said that forcing Georgia to receive its gas before July 1 is useless to Georgia, since it has no

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storage capability and no real need for gas in the summer. He said the economic shock of the increase in the price of Russian gas will impact Georgia most strongly in 2007 and by next year the economy will have adjusted for the most part. Also, more hydropower capacity will be coming on line over the next few years, reducing the need for gas. Chechelashvili said he got the feeling that Turkey simply did not want to share its Shah Deniz gas, and that Georgia had been wasting its time in negotiations with the Turks since October or November. As a result, Georgia will have to plan for continued reliance on Russian gas for the next three or four years. In his opinion, the Turks' short-term object is simply to avoid penalties for being unable to receive gas before July 1. He added that the Turk's negotiator, a Mr. Uman (possibly Resit Uman) admitted that the GOT is under pressure from Russia has to take its interests into account. Chechelashvili felt that the way the Tbilisi meeting and negotiations were handled by Turkey indicates that Erdogan's political capacity is more limited than previously thought.

¶6. (C) Asked what support Azerbaijan had given Georgia in the discussions with Turkey, Chechelashvili said they had been helpful. Apparently this was not sufficient to influence the Turks, however.

¶7. (U) Chechelashvili said there was no detailed discussion of free trade with Turkey but he fears that achieving an FTA may become more difficult. The Declaration announces agreement to support construction of a new electricity transmission line from Azerbaijan, through Georgia and into Turkey.
TEFFT